

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Councilmembers

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: April 2, 2009

RE: Resolution Presented by the Honorable Council President Monica Conyers Regarding Buy-Outs for City Workers

At City Council's Formal Session of March 10, 2009, the attached resolution was authorized, requesting that the Administration study the possibility of buy-outs for long serving employees with the actual number of years and the conditions of the buy-outs to be determined relative to cost effectiveness. The resolution also requested that the Administration act on this issue as quickly as possible. The Administration has not yet commented to the Council yet on this resolution.

Our office also recommended that Council receive from the Administration the final report from the 2005 employee buyout proposal through the company PARS that was never enacted, although the city paid around \$85,000 for the study to be conducted. It would be valuable to read why the final analysis was to recommend no implementation of the program. The Mayor's liaison to Council, Ms. Robinson agreed to take that request back to the Mayor's office. The Council has not yet received a response about that request either.

Subsequently, Wayne County has announced a buyout offer that was reported in the news this past week. Council President Conyers asked our office to review and see how it would apply to this organization.

Attached are two charts, one for civilian and one for uniform, which interpret what we understand to be the Wayne County proposal, from what was written in the newspaper. We have contacted the Wayne County Executive's office but have not received the details as yet.

For Council's review, there are 3 assumptions of different numbers of employees taking the buyout and the costs compared with a typical layoff and the savings difference. The Administration's deficit reduction plan that was presented to Council in January 2009, included salary savings of \$48 million - \$23 million from civilians and \$25 million from uniform – by enacting a 10% pay cut.

The average salary, age and service year data comes from the pension actuarial reports that were used for the current year's budget. The pertinent pages are attached.

Based on our analysis, the City's general fund would save in the first year \$3.5 million if 100 civilian employees took a buyout plan similarly to Wayne County's plan, \$8.7 million based on 250 taking the buyout, and \$17.5 million based on 500 taking the buyout.

Regarding uniform employees, the City's general fund would save in the first year \$5.1 million based on 100 uniform employees taking the buyout, \$12.7 million based on 250 taking the buyout, and \$25.4 million based on 500 taking the buyout.

Combining civilian and uniform employees, the City's general fund would save in the first year \$8.6 million based on 100 civilian and uniform employees taking the buyout, \$21.4 million based on 250 taking the buyout, and \$42.9 million based on 500 taking the buyout.

We still recommend that the final PARS report from 2005 be transmitted to Council, as this would be excellent background information to clearly see why this plan was not pursued.

We hope that the Administration will also respond to the resolution presented by Council President Conyers regarding employee buyout plans.

We are available to respond to any questions.

Attachments

cc: Council Divisions
Loren Monroe, Auditor General
Joseph Harris, Finance Director
Pamela Scales, Budget Director
Arese Robinson, Mayor's Office


DAVID D. WHITAKER
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City of Detroit
CITY COUNCIL

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Internal Operations
Standing Committee
Referred to Committee: 2-24-09
LINE ITEM# 10 Date: 2-26-09
Disposition Authoring
COMMITTEE
Formal Session of 3/0-09
Line Item#(s) #88
From: ☐ BF&A ☐ PH&S ☐ P&ED ☐ TR&SP
☒ N&CS ☐ IO ☐ CA ☐ New Bus.
☒ Authorized ☐ Failed
☐ Other (SC-10)

To: The Honorable City Council

From: David Whitaker, Director 
Research and Analysis Division

Date: February 18, 2009

Re: City Buy-out Resolution

At Formal Session on February 3, 2009, Council President Monica Conyers asked Research and Analysis to draft a resolution urging the Administration to review and consider the possibility of offering "buy-outs" to long term city employees in an attempt to help alleviate the current budget deficit. That resolution is attached.

11 FEB 18 AM 11:17

CITY COUNCIL

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**A Resolution By Council President Monica Conyers
Re: Buy-Outs for City Workers**

- WHEREAS:** The Administration maintains that the City of Detroit is facing an unprecedented budget deficit of up to or more than \$300 million with perhaps hundreds of employee layoffs and severe service delivery reductions; and
- WHEREAS:** Buy-outs of long serving employees may be a way of reducing the current and future deficits, decreasing the number of potential layoffs, maintaining City services to our residents, while at the same time resulting in cost savings to the City; and
- WHEREAS:** Corporations and companies from virtually every sector of the economy are offering buy-outs to their employees in an effort to decrease the number of individuals who must be laid off because of these hard economic conditions;
NOW THEREFORE BE IT
- RESOLVED:** That the Detroit City Council requests the Administration to study the possibility of buy-outs for long serving employees with the actual number of years and the conditions of the buy-outs to be determined relative to cost effectiveness; and **BE IT FURTHER**
- RESOLVED:** That the Detroit City Council urges the Administration to act on this issue of buy-outs as quickly as possible; and **BE IT FINALLY**
- RESOLVED:** That the Detroit City Council directs the City Clerk to send a copy of this approved resolution to Mayor Kenneth V. Cockrel

RECEIVED FEB 18 2 11 PM '13

CITY CLERK

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Determined.

...focusing on the right result for our clients.

PLUNKETT COON
ATTORNEYS & COUNSELORS AT LAW

1:57 pm, March 30, 2009

Wayne County employees get buyout offer

By Nancy Kaffer

Wayne County is offering employee buyouts in an attempt to help plug a projected budget deficit, but county officials still aren't sure how big the hole is that they'll have to fill.

The county is facing a projected \$77 million to \$104 million deficit.

A decline in property taxes following a wave of home foreclosures — in the city of Detroit, there have been more than 60,000 foreclosures since 2005, according to city records — job losses and losses in the manufacturing sector have shrunk the county's revenues, said Dennis Niemiec, the county's director of creative services.

Niemiec said the state is planning to allocate \$40 million in revenue sharing to the county, but with the state facing a deficit of its own, a February memo from Ficano on budget policy warns department heads and elected county officials not to bank on those funds.

Declining tax revenues account for about \$43 million of the county's projected shortfall, according to the memo.

The buyouts would offer all employees 2.5 percent of current salary per year of service, capped at \$25,000, and to a summary of the severance offer. The county has also offered to pay for employees' COBRA coverage through September, and not contest employees' unemployment benefits. The buyout deadline is April 17.

Employees who don't take the COBRA benefits will receive a second lump sum payment equal to the first.

The county has already instituted 20 percent budget cuts in some departments, Niemiec said.

"The only thing that's not on the table is a tax increase," he said. "That's the only thing that's been ruled out.

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KEYNOTE SPEAKER Alexis M. He
former Secretary of Labor under the Clinton Admin

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**Assumptions on Buyout Cost Estimates For City Based on Wayne County's Proposed Buyout Plan
(Civilian - General Fund)**

Average Salary	\$ 40,319	Service Yrs.	1 2.5%	\$ 1,007.98	avg. buyout	\$ 10,080
Average age	47		2 2.5%	1007.98		
Avg. Service years	14.6		3 2.5%	1007.98	cobra opt-out	10,080
			4 2.5%	1007.98		
			5 2.5%	1007.98	unemployment	9,412
			6 2.5%	1007.98	(26 weeks @ \$362)	
			7 2.5%	1007.98	Buyout Total	\$ 29,572
			8 2.5%	1007.98		
			9 2.5%	1007.98		
			10 2.5%	1007.98		
Assumption of Employees taking buyout	100			250		500
Buyout costs (one year)	\$ 2,957,175.00			7,392,937.50	\$ 14,785,875	
Annual Salary Savings (Including Fringe Costs)	\$ 6,451,040.00			\$ 16,127,600.00	\$ 32,255,200.00	
Estimated First-year savings	\$ 3,493,865.00			\$ 8,734,662.50	\$ 17,469,325.00	
Assumption of Employee Layoffs	100			250		500
Unemployment Benefit costs (one year)	941,200			2,353,000	4,706,000	
Annual Salary Savings (Including Fringe Costs)	\$ 6,451,040			\$ 16,127,600	\$ 32,255,200	
Estimated First-year savings	\$ 5,509,840			\$ 13,774,600	\$ 27,549,200	

**Assumptions on Buyout Cost Estimates For City Based on Wayne County's Proposed Buyout Plan
(Uniform - General Fund)**

Average Salary	\$ 54,647	Service Yrs.	1 2.5%	\$ 1,366.18	avg. buyout	\$ 13,662
Average age	40.9		2 2.5%	1366.18		
Avg. Service years	14.5		3 2.5%	1366.18	cobra opt-out	13,662
			4 2.5%	1366.18		
			5 2.5%	1366.18	unemployment	9,412
			6 2.5%	1366.18	(26 weeks @ \$362)	
			7 2.5%	1366.18	Buyout Total	\$ 36,736
			8 2.5%	1366.18		
			9 2.5%	1366.18		
			10 2.5%	1366.18		
Assumption of Employees taking buyout	100			250		500
Buyout costs (one year)	\$ 3,673,575.00			9,183,937.50	\$ 18,367,875	
Annual Salary Savings (Including Fringe Costs)	\$ 8,743,520.00			\$ 21,858,800.00	\$ 43,717,600.00	
Estimated First-year savings	\$ 5,069,945.00			\$ 12,674,862.50	\$ 25,349,725.00	
Assumption of Employee Layoffs	100			250		500
Unemployment Benefit costs (one year)	941,200			2,353,000	4,706,000	
Annual Salary Savings (Including Fringe Costs)	\$ 8,743,520			\$ 21,858,800	\$ 43,717,600	
Estimated First-year savings	\$ 7,802,320			\$ 19,505,800	\$ 39,011,600	

ACTIVE MEMBERS AS OF JUNE 30, 2007
BY ATTAINED AGE AND YEARS OF SERVICE
RETIREMENT SYSTEM TOTALS

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	13							13	\$ 215,697
20-24	101	12						113	2,444,459
25-29	162	179	6					347	10,413,733
30-34	180	249	124	4				557	19,351,915
35-39	172	415	278	79	14			958	36,685,131
40-44	167	356	396	274	180	4		1,377	54,572,765
45-49	153	326	326	343	408	179	17	1,752	71,237,338
50-54	110	278	287	258	415	396	87	1,831	76,149,641
55-59	74	161	181	185	255	302	142	1,300	56,615,526
60-64	29	87	93	69	80	92	72	522	24,412,857
65-69	10	31	31	14	11	20	26	143	6,958,327
70-74	3	9	7	4	3		11	43	2,048,544
75-79		3	2	1	3		3	15	595,548
Totals	1,177	2,106	1,731	1,231	1,369	999	358	8,971	\$361,701,481

Group Averages:

Age: 47.0 years
Service: 14.6 years
Annual Pay: \$40,319

TOTAL ACTIVE MEMBERS JUNE 30, 2007
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20									
20-24	37							37	\$ 1,425,890
25-29	105	232	5					342	16,196,536
30-34	69	434	200					703	35,431,067
35-39	26	388	439	88	2			943	49,517,772
40-44	12	141	216	193	215	1		778	43,348,076
45-49	7	56	76	105	318	11	1	574	32,981,456
50-54	4	10	26	44	244	127	21	476	28,688,951
55-59	2	3	4	7	76	77	138	307	19,490,749
60				2	2	5	12	21	1,317,942
61					1	2	4	7	413,991
62		1		1		1	4	7	404,678
63					2		2	4	214,595
64							4	4	228,470
65							3	3	164,372
66							2	2	134,824
68							3	3	164,415
72							1	1	50,180
Totals	262	1,265	966	440	860	224	195	4,212	\$230,173,964

	Group Averages		
	Police	Fire	Total
Age:	40.5 years	42.1 years	40.9 years
Service:	13.9 years	16.1 years	14.5 years
Annual Pay:	\$53,990	\$56,432	\$54,647